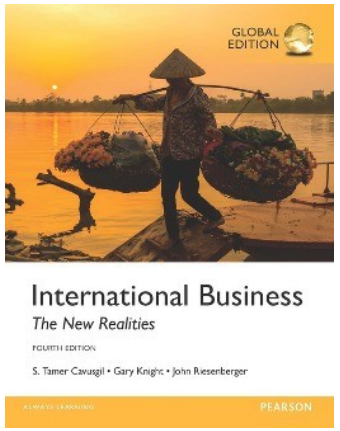
Chapter 2



Globalization of Markets and the Internationalization of the Firm

International Business: The New Realities, 4th Edition, Global Edition

by

Cavusgil, Knight, and Riesenberger

Learning Objectives

2.1 Understand market globalization as an organizing framework.

2.2 Know the drivers of globalization.

2.3 Understand technological advances and globalization.

2.4 Comprehend the dimensions of globalization.

2.5 Appreciate firm-level consequences of market globalization.

2.6 Understand the societal consequences of globalization.

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Overview on Globalization of Markets

- *Globalization* and *technological advances* have altered the international business landscape more than any other trends.

- In this class, *globalization* refers to the interconnectedness of national economies and

  the growing interdependence of buyers, producers, suppliers, and governments around the world.

- Globalization allows firms to view the world as one large marketplace for goods, services,

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Phases of Globalization

Phase of Globalization	Approximate Period	Triggers	Key Characteristics
First phase	1830 to late 1800s, peaking in 1880	Introduction of railroads and ocean transport	Rise of manufacturing: cross-border trade of commodities, largely by trading companies
Second phase	1900 to 1930	Rise of electricity and steel production	Emergence and dominance of early MNEs (mainly from Europe and North America) in manufacturing, extractive, and agricultural industries
Third phase	1948 to 1970s	Formation of General Agreement on Tariff and Trade (GATT); conclusion of World War II; Marshall Plan to reconstruct Europe	Focus by industrializing Western countries to reduce trade barriers; rise of MNEs from Japan; development of global capital markets; rise of global trade names
Fourth phase	1980s to present	Privatization of state enterprises in transition economies; revolution in information, communication, and transportation technologies; remarkable growth of emerging markets	Rapid growth in cross-border trade of products, services, and capital; rise of internationally active SMEs and services firms; rising prosperity of emerging markets

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The Death of Distance

In This Time Period…	Fastest Transportation Was Via…	At a Speed of…
1500 to 1840s	• Human-powered ships and horse-drawn carriages	10 miles per hour
1850 to 1900	• Steamships	36 miles per hour
	• Steam locomotive trains	65 miles per hour
Early 1900s to today	• Motor vehicles	75 miles per hour
	• Propeller airplanes	300–400 miles per hour
	• Jet aircraft	500–700 miles per hour

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The Drivers of Market Globalization

1. Drivers of Market Globalization

- Worldwide reduction of barriers to trade and investment
- Market liberalization and adoption of free markets
- Industrialization, economic development, and modernization
- Integration of world financial markets.
- Advances in technology

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The Drivers and Dimensions of Market Globalization

1. Drivers of Market Globalization

- Worldwide reduction of barriers to trade and investment
- Market liberalization and adoption of free markets
- Industrialization, economic development, and modernization
- Integration of world financial markets
- Advances in technology

2. Dimensions of Market Globalization

- Integration and interdependence of national economies
- Rise of regional economic integration blocs
- Growth of global investment and financial flows
- Convergence of buyer lifestyles and preferences
- Globalization of production activities
- Globalization of services

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The Drivers, Dimensions, and Consequences of Market Globalization

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3a. Firm-level Consequences of Market Globalization: Internationalization of the Firm's Value Chain
- Countless new business opportunities for internationalizing firms
- New risks and intense rivalry from foreign competitors
- More demanding buyers who source from suppliers worldwide
- Greater emphasis on proactive internationalization
- Internationalization of firm's value chain

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The Drivers, Dimensions, and Consequences of Market Globalization

1. Drivers of Market Globalization
- Worldwide reduction of barriers to trade and investment
- Transition to market-based economies and adoption of free trade in China, former Soviet Union countries, and elsewhere
- Industrialization, economic development, and modernization
- Integration of world financial markets
- Advances in technology

2. Dimensions of Market Globalization
- Integration and interdependence of national economies
- Rise of regional economic integration blocs
- Growth of global investment and financial flows
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3b. Societal Consequences of Market Globalization
- Contagion: Rapid spread of financial or monetary crises from one country to another
- Loss of national sovereignty
- Offshoring and the flight of jobs
- Effect on the poor
- Effect on the natural

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Dimensions of Market Globalization

- ***Integration and interdependence of national economies***. Results from firms' collective international activities. Governments contribute by lowering trade and investment barriers.

- ***Rise of regional economic integration blocs***.
  Free trade areas are formed b
  countries to reduce or elimina
  barriers to trade and investme
  such as the EU, NAFTA, and
  MERCOSUR.

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Dimensions of Market Globalization (cont'd)

- ***Growth of global investr and financial flows***. Associated with rapid growt in foreign direct investment (FDI), currency trading, anc global capital markets.

- ***Convergence of buyer lifestyles and preferences***. Facilitated by global media, which emphasize lifestyles found in the U.S., Europe, or elsewhere. Firms market standardized products.

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Dimensions of Market Globalization (cont'd)

- ***Globalization of production***. To cut costs, firms manufacture in low labor-cost locations such as Mexico and Eastern Europe. Firms also source services from abroad.

- ***Globalization of services***. Banking, hospitality, retailing, and other service industries are rapidly internationalizing. Firms outsource business processes and other services in the value chain to vendors overseas. And, in a new trend, many people go abroad to take advantage of low-cost services.

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Drivers of Market Globalization

- ***Worldwide reduction of barriers to trade and investment***. Over time, national governments have greatly reduced trade and investment barriers. The trend is partly facilitated by the ***World Trade Organization*** (WTO), an organization of some 150 member nations.

- ***Market liberalization and adoption of free markets.*** The launch of free market reforms in China and the former Soviet Union marked the opening of roughly 1/3 of the world to freer

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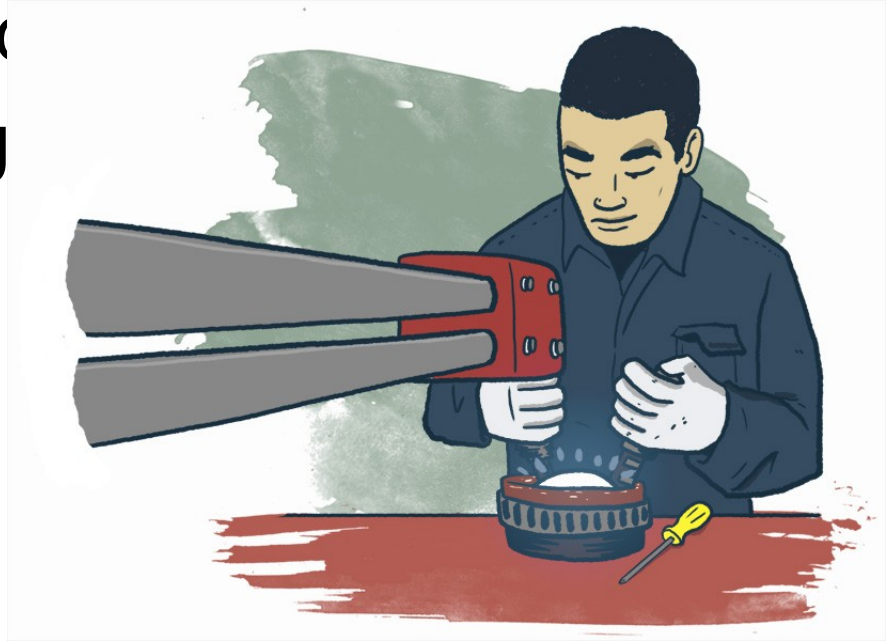
Drivers of Market Globalization (cont'd)

- ***Industrialization, economic development, and modernization***. These trends transformed many developing economies from producers of low-value to higher-value goods, such as electronics and

  Simultaneously, rising living standards have made such countries more attractive as target markets for sales and investment.



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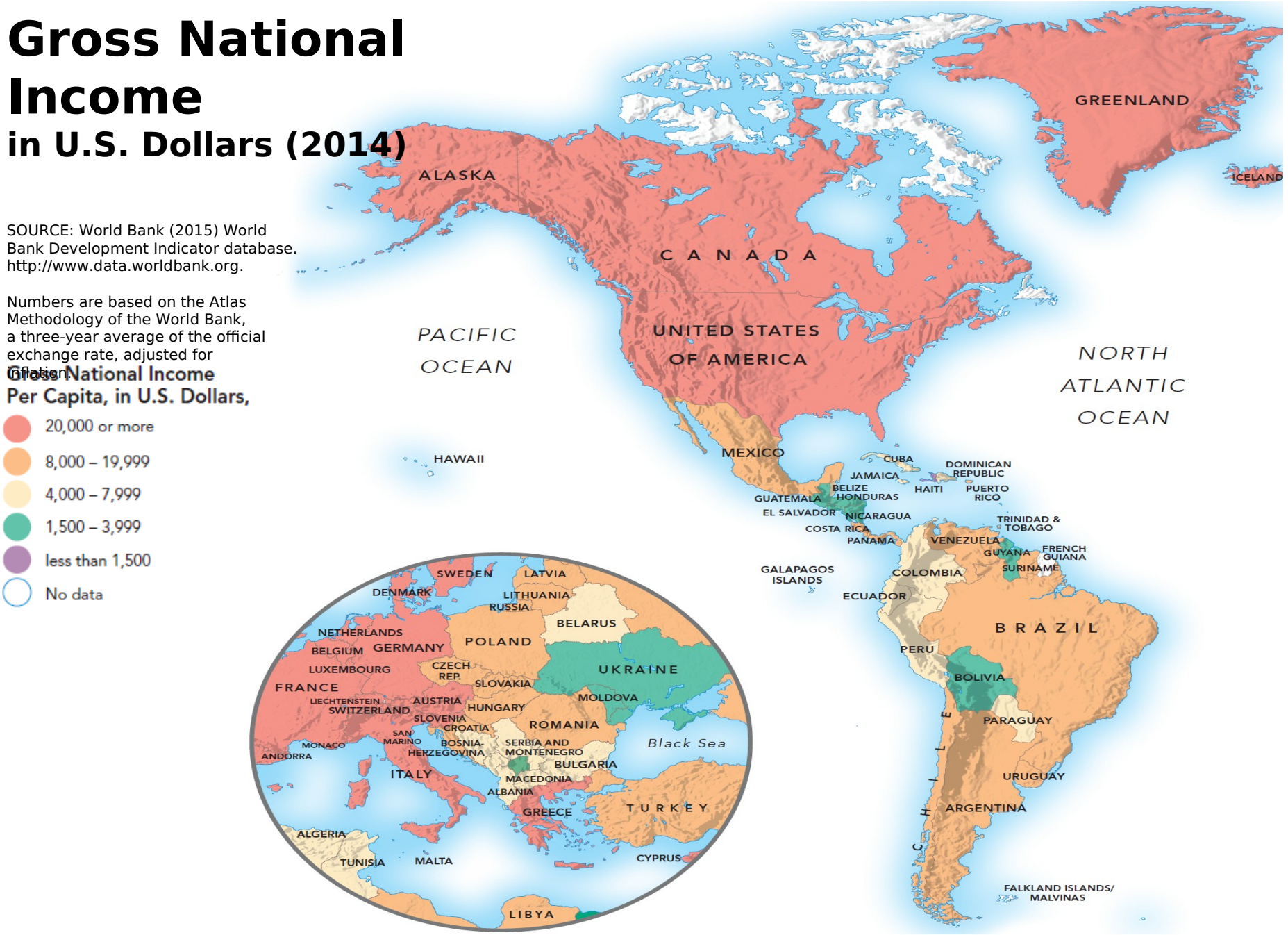
Gross National Income
in U.S. Dollars (2014)

SOURCE: World Bank (2015) World Bank Development Indicator database. http://www.data.worldbank.org.

Numbers are based on the Atlas Methodology of the World Bank, a three-year average of the official exchange rate, adjusted for inflation.



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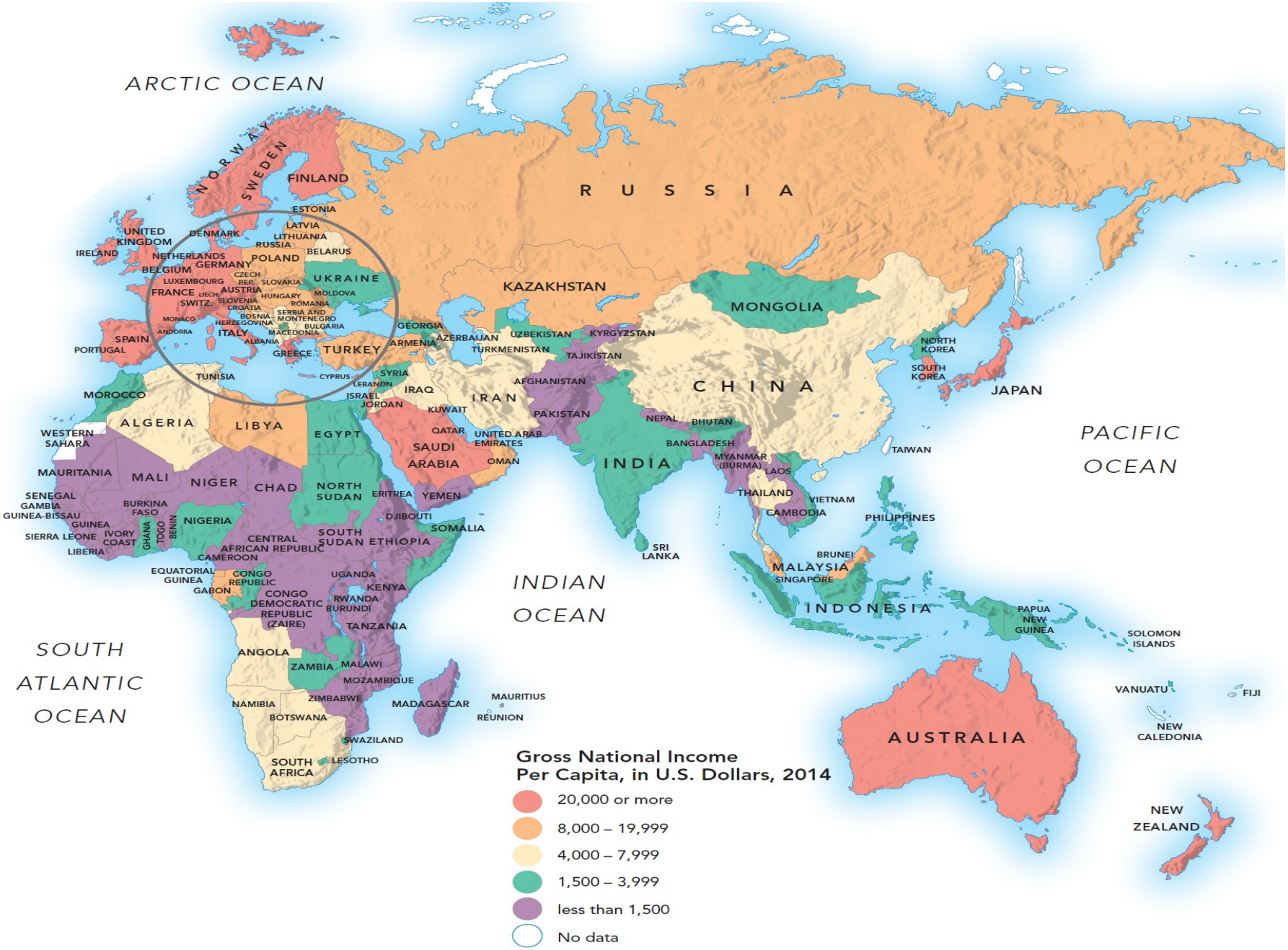

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Drivers of Market Globalization (cont'd)

- ***Integration of world financial markets***. Enables firms to raise capital, borrow funds, and engage in foreign currency transactions wherever they go. Banks now provide a range of services that facilitate global transaction

Source: Arto/Fotolia

- ***Advances in technology***. Reduces the cost of doing business internationally, by allowing firms to interact cheaply with suppliers, distributors, and customers worldwide. Facilitates the internationalization of companies, including countless small firms

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Information and Communications Technology (ICT)

- Profound advances have occurred in computers, digital technologies, telephony, and the Internet.
- MNEs leverage ICTs to optimize their performance, managing operations around the world.
- ICTs opened the global marketplace to firms that historically lacked the resources to internationalize

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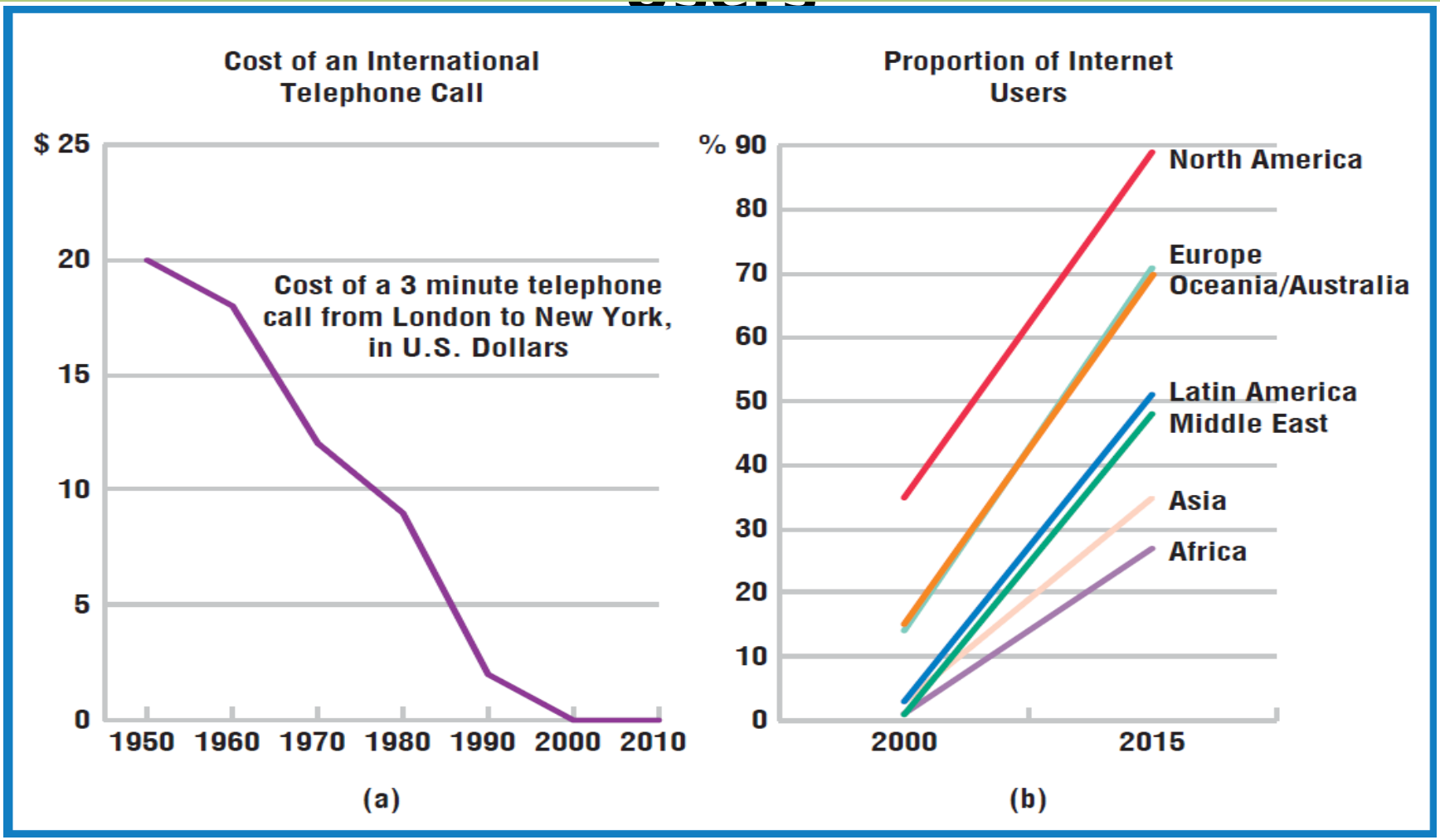
Communication and Growing Number of Internet



Sources: IMF, *World Economic Outlook* (Washington, DC: International Monetary Fund, 2015); United Nations International Telecommunications Union, *Statistics Database*, (2015) at www.itu.int; Internet World Stats, *Internet Usage Statistics*, (2015) at www.internetworldstats.com.

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Manufacturing and Transportation Technologies

- Revolutionary developments permit manufacturing that is low-scale *and* low cost, via computer-aided-design of products (CAD), robotics, and IT-managed production lines.

- In transportation, key advances include fuel-efficient jumbo jets, giant ocean-going freighters, and containerized shipping. The cost of international transportation has declined substantially, spurring rapid growth in global trade.

- Collectively, technological advances have

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Societal Consequences of Market Globalization

- ***Contagion: Rapid Spread of Monetary or Financial Crises.*** Beginning in late 2008, the world economy experienced a severe financial crisis and global recession, the worst in decades. The crisis emerged when pricing bubbles occurred in housing and commodities markets worldwide. As bubbles in real estate markets burst, home values crashed and many homeowners could not repay their debts. Meanwhile, thousands of mortgages had been securitized, and their values plunged or became uncertain.

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Societal Consequences (cont'd)

- ***Loss of National Sovereignty***. MNE activities can interfere with governments' ability to control of their own economies and social-political systems. Some firms are bigger than the economies of many nations (e.g., Walmart, Shell).

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Societal Consequences (cont'd)

- ***Loss of National Sovereignty***. MNE activities can interfere with governments' ability to control of their own economies and social-political systems. Some firms are bigger than the economies of many nations (e.g., Shell, Walmart).

  However, some argue that global competition in the context of global free trade makes MNEs less powerful (e.g., The US auto industry declined as foreign rivals from Japan and Europe entered the US market. Some day, Walmart may be overtaken by a giant Chinese retailer).

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Societal Consequences (cont'd)

- ***Offshoring and the Flight of Jobs***. Jobs are lost as firms shift production of goods and services abroad, in order to cut costs and obtain other advantages. Firms benefit, communities and industries are disrupted.

- ***Effect on the Poor***. In poor countries, while globalization usually creates jobs and raises wages,
it also tends to disrupt local [illegible]NEs may pay low wages, and ma[illegible] exploit workers or employ c[illegible] labor. Globalization's benefi[illegible] are not evenly distributed.

Example
Many people in India are losing jobs as the hand-woven textiles industry is being gradually automated.

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Effect on the Poor

Source: Peter Cook/Dorling Kindersley

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Example: Nike's Foreign Factories

- Nike has 100s of factories in Asia, Latin America, and elsewhere.
- Nike has been criticized for paying low wages and operating sweatshop conditions.
- Labor exploitation and sweatshop conditions are genuine concerns in many developing economies.
- However, consideration must be given to the other choices available to people in those countries.
- Nike and numerous other MNEs are making

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Growth of World GDP, Average Annual Percent Change, 2006–2015

Source: International Monetary Fund, World Economic Outlook Database http://www.imf.org/external/pubs/ft/weo/2015/01/weodata/index.aspx.

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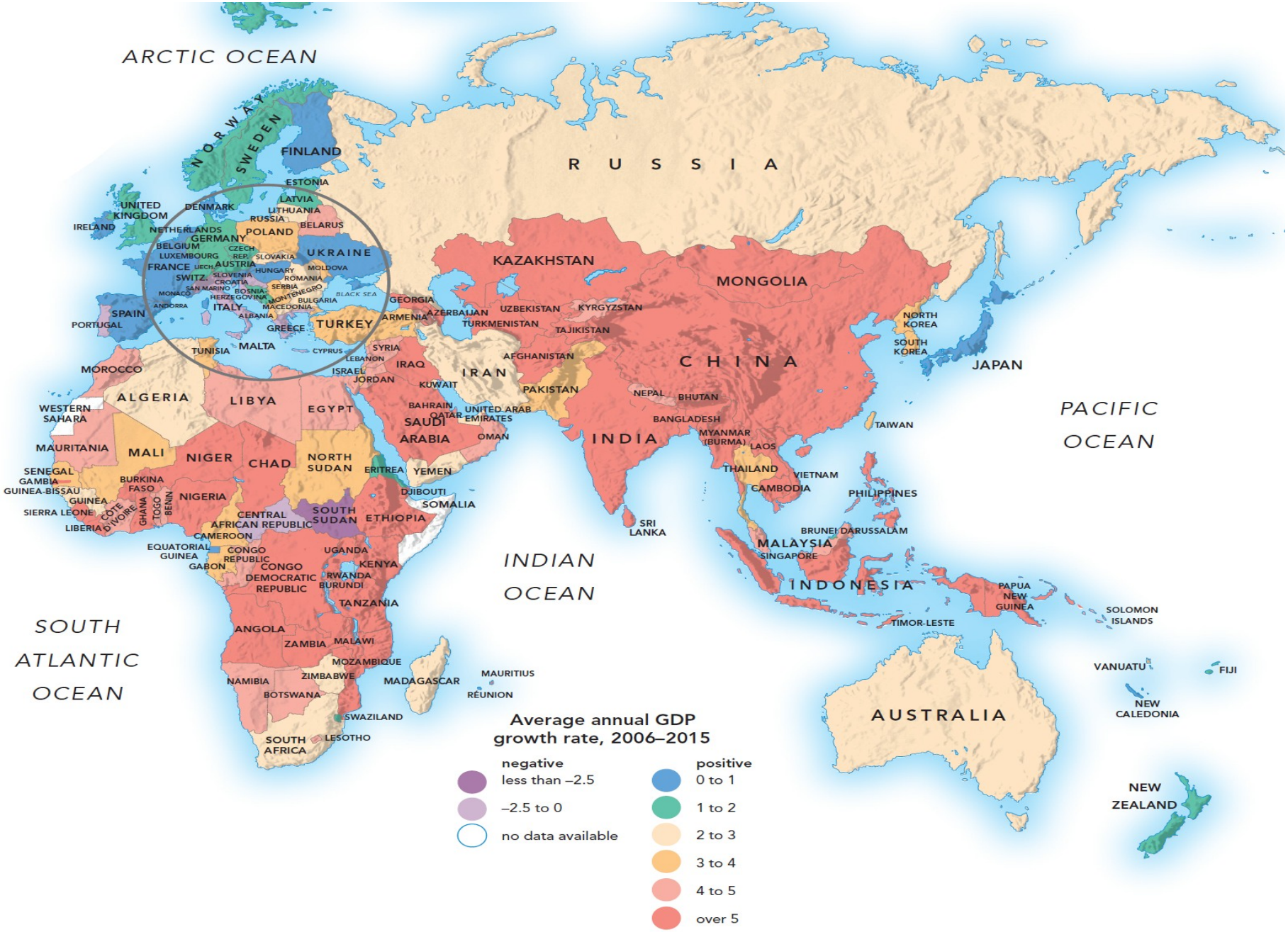

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Societal Consequences of Globalization (cont'd)

- ***Effect on the Natural Environment***. Globalizat harms the environment b promoting industrializatio and other activities that generate pollution, habita destruction, and other environmental harm. e.g., As China and India industrialize, air and water pollution have become major hazards.

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Societal Consequences of Globalization (cont'd)

- ***Effect on the Natural Environment***. Globalization harms the environment by promoting industrialization and other activities that generate pollution, habitat destruction, and other environmental harm. e.g., As China and India industrialize, air and water pollution have become major environmental hazards.

- *However*, as nations develop their economies, they tend to pass laws that protect the environment. e.g., This happened in Japan from the 1960s to the 1980s. In Mexico, the government is gradually adopting policies to protect the air, water, etc.

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Societal Consequences of Globalization (cont'd)

- ***Effect on National Culture***. Globalization opens the door to foreign firms, global brands, unfamiliar products, and new values. Increasingly, consumers buy similar products, modeled according to Western countries, especially the US. In this way, traditional norms, values, and behaviors may homogenize over time. National identity may be lost to 'global' culture.

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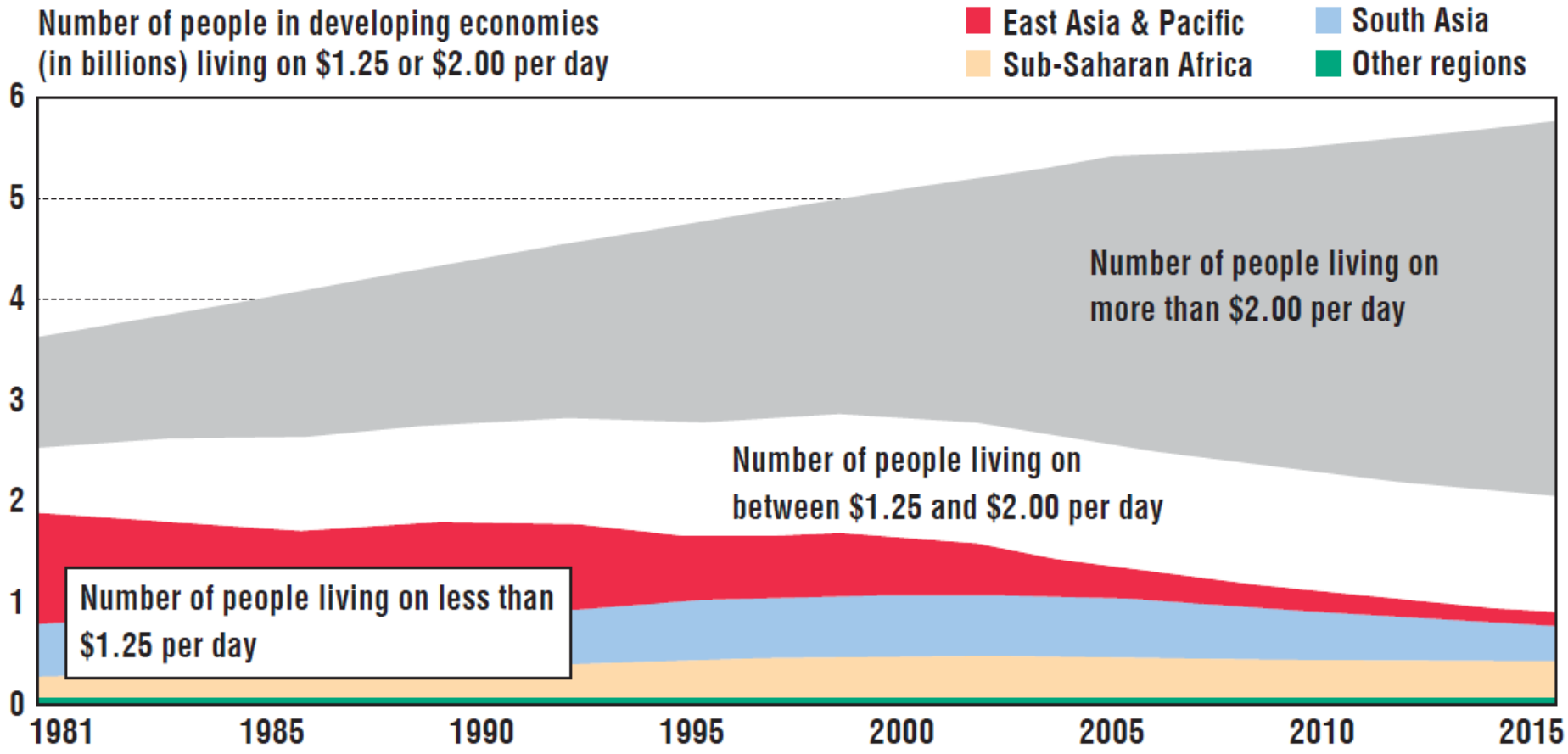
Number of People Living in Poverty
(in Billions)



Sources: L. Chandy, N. Ledlie, and V. Penciakova, *The Final Countdown: Prospects for Ending Extreme Poverty by 2030,* Policy Paper 2013–14 (Washington DC: Brookings Institution); *Economist*, "Poverty's Long Farewell," February 28, 2015, p. 68; World Bank, *World Development Indicators* (Washington, DC: World Bank, 2015).

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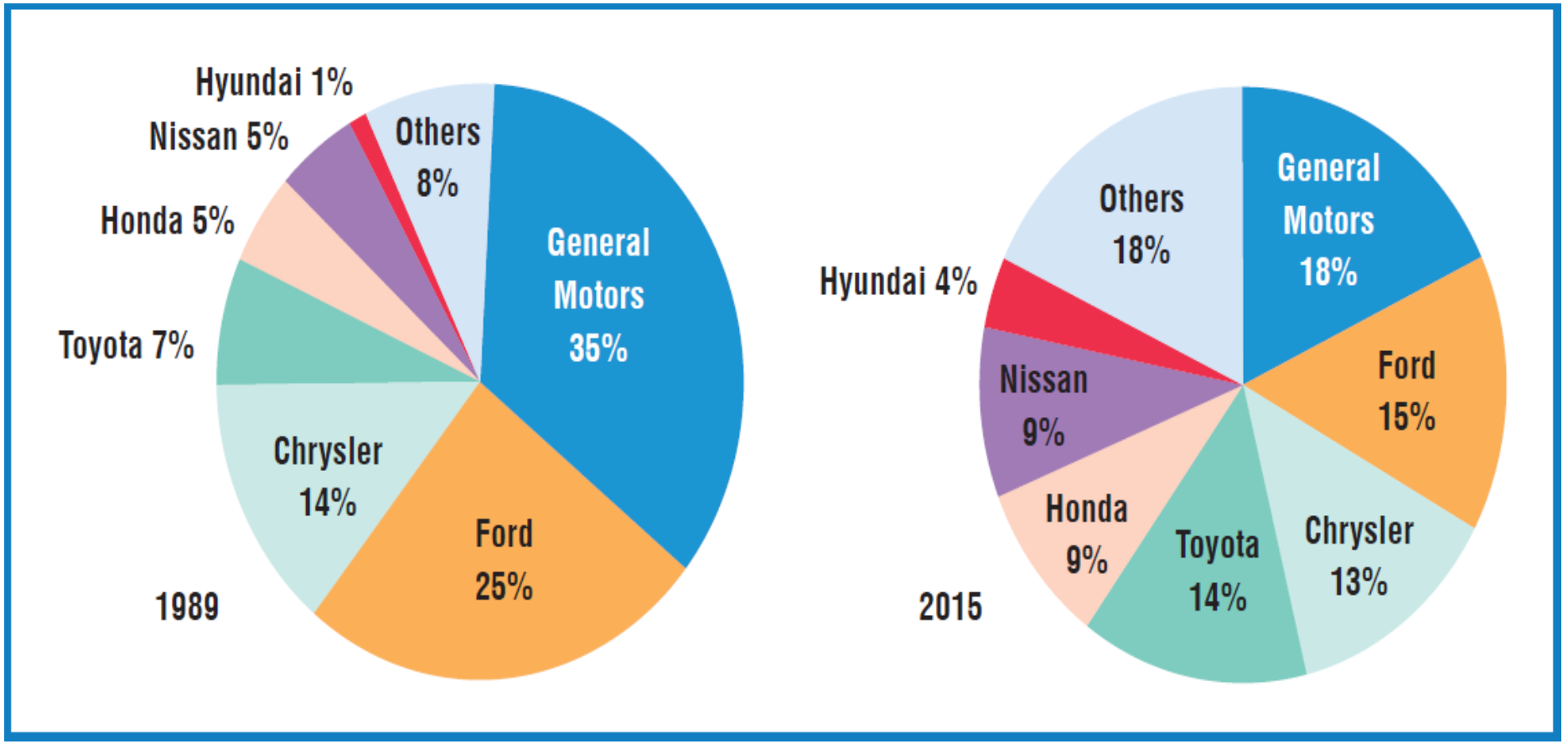
Automaker Market Shares, Light-Vehicle Sales in the U.S, 1989 and 2015



Sources: Based on Craig Trudell, "U.S. Automakers Seen Losing Market Share Amid 2012 Growth: Cars," *Bloomberg BusinessWeek*, February 8, 2012, retrieved from www.businessweek. com; J. Muller, "Automakers Gold Rush," *Forbes*, June 8, 2009, pp. 70–77; *Wall Street Journal*, "Sales and Share of Total Market by Manufacturer," March 3, 2015, retrieved from http://online.wsj.com/mdc/ public/page/2_3022-autosales.html#autosalesE, March 16, 2015.

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Company Internationalization and the Value Chain

- The most significant implication of market globalization for companies is that a purely domestic focus is no longer viable in most cases.
- Market globalization compels firms to internationalize their value chain, and access the benefits of international business.
- **Value chain**: The sequence of value-adding activities performed by the firm in the process of developing, producing, and marketing a product or a service.
- Globalization allows the firm to internationalize its *value chain*, leading to various advantages.

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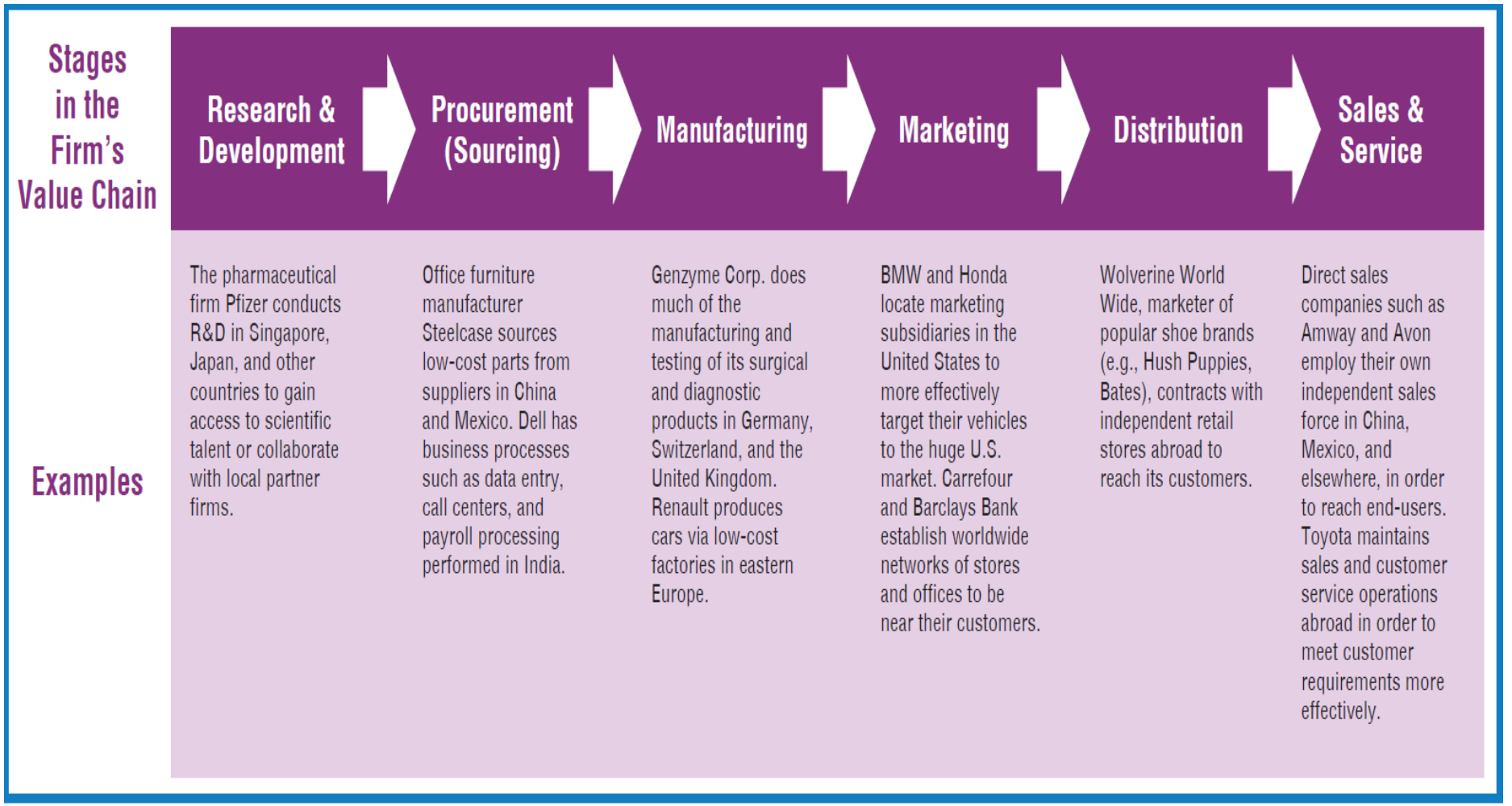
Internationalization of the Firm's Value Chain


Stages in the Firm's Value Chain
Research & Development
Procurement (Sourcing)
Manufacturing
Marketing
Distribution
Sales & Service
Examples
The pharmaceutical firm Pfizer conducts R&D in Singapore, Japan, and other countries to gain access to scientific talent or collaborate with local partner firms.
Office furniture manufacturer Steelcase sources low-cost parts from suppliers in China and Mexico. Dell has business processes such as data entry, call centers, and payroll processing performed in India.
Genzyme Corp. does much of the manufacturing and testing of its surgical and diagnostic products in Germany, Switzerland, and the United Kingdom. Renault produces cars via low-cost factories in eastern Europe.
BMW and Honda locate marketing subsidiaries in the United States to more effectively target their vehicles to the huge U.S. market. Carrefour and Barclays Bank establish worldwide networks of stores and offices to be near their customers.
Wolverine World Wide, marketer of popular shoe brands (e.g., Hush Puppies, Bates), contracts with independent retail stores abroad to reach its customers.
Direct sales companies such as Amway and Avon employ their own independent sales force in China, Mexico, and elsewhere, in order to reach end-users. Toyota maintains sales and customer service operations abroad in order to meet customer requirements more effectively.

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Internationalization of the Firm's Value Chain

- The truly international firm configures its sourcing, manufacturing, marketing, and other value-adding activities on a global scale.

- Rationale:
  - cost savings
  - increase efficiency, productivity, and flexibility of value chain activities
  - access customers, inputs, labor, or technology
  - benefit from foreign partner capabilities

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Ethical Connections

- In six years, Nigeria increased its telecom infrastructure from just 500,000 phone lines to more than 30 million cellular subscribers.
- This led to a big rise in productivity and commerce, which has helped improve living standards.
- Access to cell phones saves wasted trips, provides access to education and healthcare, and facilitates communication between suppliers and customers.
- MNE telecom investment in Africa allows firms to fulfill social responsibilities and improve the lives of millions of poor people.

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You Can Do It: Recent Grad in IB

TERRANCE ROGERS

Terrance's majors: Finance and International Business

Objectives: Exploration, international perspective, self-awareness, career growth, learning about foreign markets

Internships during college: Deutsche Bank

Jobs held since graduating: All at Deutsche Bank, Business Analyst, Management A Executive Management Rotation, in New York. Most recently, Executive Management Associate at Deutsche Bank, London.

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You Can Do It (cont'd)

Terrance's Advice for an International Career: Early exposure at his university to international business and study abroad

Success Factors:

(a) work on projects that expose you to people in different regions across the globe;
(b) mention your interest in working abroad early and bring it up in your annual review;
(c) find a way to impress the people who can make the decision. It becomes easier to make the move when the "right people" know you can deliver.

Challenges: Language and cultural barriers should be faced early in your career. Learn from cultural missteps early, so that you can be a better leader tomorrow.

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